



TOWN OF FAIRHAVEN, MASSACHUSETTS

Management Letter
For the Year Ended June 30, 2020

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY LETTER	1
RECOMMENDATIONS:	
1. Expand Chart of Accounts	3
2. Prepare for GASB Statements 84 and 87	3

To the Board of Selectmen
Town of Fairhaven, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Fairhaven, Massachusetts (the Town) as of and for the year ended June 30, 2020 (except for the Fairhaven Contributory Retirement System, which is as of and for the year ended December 31, 2019), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.



The Town's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the governing body, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

Andover, Massachusetts
March 25, 2021

RECOMMENDATIONS:

1. Expand Chart of Accounts

The Town currently records the activity associated with multiple opinion units within fund 084 in the general ledger. As a result, numerous reclassifying adjustments are required to properly present activity in the respective fund financial statements in accordance with Generally Accepted Accounting Principles.

The following accounts should be recorded as separate funds in the general fund:

- Internal service fund (proprietary funds)
- Stabilization fund (governmental funds)
- Sewer stabilization fund (proprietary funds)
- Various special revenue funds (governmental funds)

Additionally, the expendable portion of trust funds is reported in fund 082 and the nonexpendable portion is reported in fund 081 in the general ledger. As a result, numerous reclassifying adjustment are required to properly present activity in permanent trust fund (governmental funds) and private purpose trust fund (fiduciary funds) financial statements. These accounts should be classified in the general ledger based on the type of each trust fund, instead of expendable versus nonexpendable portions.

We recommend the Town expand the general ledger chart of accounts to eliminate the need for these reclassifying adjustments. Implementation of these recommendations will result in the proper presentation of the above noted funds.

Town's Response:

Due to the Covid-19 pandemic we were unable to implement this recommendation for fiscal year 2020. The Town plans to implement in fiscal year 2021.

2. Prepare for GASB Statements 84 and 87

GASB Statements 84 and 87 will apply to the Town in fiscal years 2021 and 2022 respectively. Statement 84 addressed Fiduciary Activities and may require change in how the Town accounts and reports these activities. Statement 87 addressed leases and significantly changes the accounting standards for leases and will not require various leases to be reported on the Town's balance sheet.

We recommend the Finance Department prepare for these accounting changes by ensuring all other Departments are aware of the pending changes. The Finance Department should also consider establishing a lease accounting policy to ensure all material leases are properly identified.

Town's Response:

The Town will implement a new lease accounting policy to properly identify material leases in fiscal year 2021.